THE MANITOBA POTASH PROJECT

THE MANITOBA POTASH PROJECT: A MAJOR INVESTMENT OPPORTUNITY

The Government of Manitoba and Canamax Resources Inc. are co-operating to bring a world-class potash mine into full production by the early 1990s. Since May 1984, Manitoba and Canamax have carried out joint and separate feasibility studies to investigate the benefits of establishing a world-scale potash mine based upon Canamax's high grade potash deposit, situated in the Russell-Binscarth area of southwestern Manitoba.

The results of pre-feasibility studies completed in 1985 by Kilborn Engineering and Matrix Newmarket Inc. were very encouraging. The project's potash reserves are substantial, capable of supporting low cost production of 2 million tonnes of muriate of potash annually for more than 30 years. Improved market conditions in the early 1990s, coupled with the project's low production costs, mean that the Manitoba Potash Project represents an attractive investment opportunity.

Detailed feasibility work was initiated by Manitoba and Canamax in 1985, including a comprehensive seismic evaluation of the potash deposit, metallurgical testing of ore samples and additional marketing activities. This work has confirmed assumptions contained in the pre-feasibility study.

In order to complete the detailed feasibility work necessary to bring the project to the production decision stage, and to provide the basis for introducing third parties into a production consortium, Manitoba and Canamax have formed a new entity, the Manitoba Potash Corporation, to pursue further development activities on a joint venture basis. Canamax, acting as operator for all property development activities, holds a 51 percent interest in the Corporation. Manitoba, acting as operator for transportation, marketing and consortium development, holds a 49 percent interest.

Feasibility activities, to be completed by 1987, include a shaft pilot hole, detailed engineering, environmental and planning studies, and intensive marketing, transportation and consortium development initiatives.

Our intent is to seek suitable consortium and other arrangements for allowing additional participation in the project. We are hopeful, therefore, that you will wish to investigate further the tangible benefits associated with this major undertaking.

Wilson D. Parasiuk

The Hon. Wilson D. Parasiuk
Minister
Manitoba Energy and Mines

John A. Hansuld

Dr. John Hansuld
President and Chief Executive Officer
Canamax Resources Inc.

Manitoba
Energy and Mines

Canamax
Resources Inc.
CANAMAX

THE PROVINCE OF MANITOBA

The Province of Manitoba is situated near the geographic centre of North America. It covers an area of 650,000 square kilometres and has a population of over one million.

The principal cities are Winnipeg, Brandon, Dauphin, Thompson, and Portage la Prairie. Winnipeg is the capital and has a population of over 600,000. The other centres are much smaller, having populations of less than 50,000 each.

Manitoba has developed a strong agricultural economy and Winnipeg has been the centre of the Canadian grain trade since its incorporation in 1873. Manitoba's economy is, at the same time, quite diversified. Rich ore bodies containing copper, nickel, gold, zinc and rare element metals make an important contribution to the provincial economy, and industrial minerals are also significant. Annual petroleum production, which has increased in recent years, is about 820,000 cubic metres.

In the realm of renewable energy resources, Manitoba is particularly fortunate. The Manitoba Hydro system currently generates approximately 4,000 megawatts (of which 3,500 megawatts are hydraulic), and has the potential for an additional 9,000 megawatts of hydraulic capacity.

Winnipeg is a major Canadian transportation centre, with marshalling yards for both national transcontinental railways. The Winnipeg International Airport handles 120 flights per day and is served by seven major airlines.

Because of its central location and importance as a distribution and trade centre, Winnipeg has a thriving light manufacturing industry.

The West Coast ports of Vancouver and Prince Rupert are accessible twelve months of the year. For about nine months of the year it is possible to ship via the St. Lawrence Seaway terminus at Thunder Bay on the western end of Lake Superior. With improvements planned for the Port of Churchill on Hudson Bay, the shipping season will be extended somewhat from its current fifteen weeks.

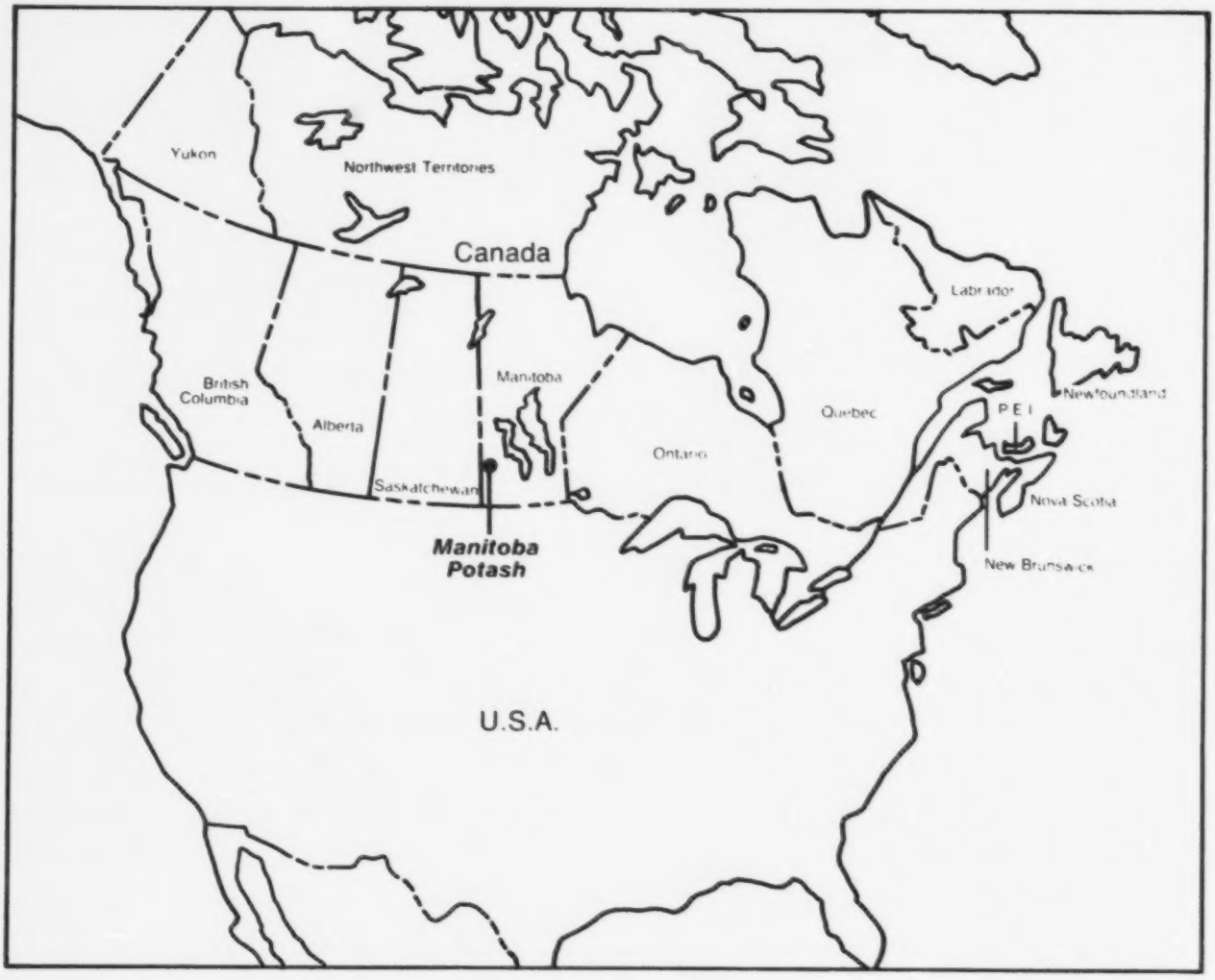

Fig. 1. Project Location Map

CANAMAX RESOURCES INC.

Canamax is a Canadian resource company based in Toronto, Ontario. Shares of the corporation are traded on the Toronto and Montreal stock exchanges.

AMAX Inc., a diversified international minerals and energy company based in Greenwich, Connecticut, currently holds 40% of the issued Canamax shares and is a major producer and marketer of potash.

In addition, Canamax is active in the exploration and development of gold deposits. The company anticipates its first production of gold in late 1986 from the Bell Creek deposit located near Timmins, Ontario. At two other deposits — Kremzar, near Wawa, Ontario and Ketza River in the Yukon — gold production is expected in 1987. The company has interests in a number of other gold properties at various stages of exploration.

POTASH IN MANITOBA

Potash occurs in Manitoba within the Devonian Prairie Evaporite which extends across Saskatchewan and into the McAuley-Russell area of western Manitoba. Potash in Manitoba is found in the Esterhazy member of the Prairie Evaporite, in its eastward extension from the potash mines at Rocanville and Esterhazy in Saskatchewan.

Exploration for potash dates from the period of intensive exploration in Saskatchewan that outlined the world's largest known potash deposits. Drilling programs have been undertaken since the 1950s and by 1984 a total of 41 potash test holes had been drilled in Manitoba.

A significant reserve block was identified in 1980 in the St. Lazare-McAuley area with an average ore grade of 21% K_2O.

A second reserve block, with a higher grade of ore, has since been identified in the Russell-Binscarth area, just north of the St. Lazare-McAuley deposit. Exploration in the Russell-Binscarth area since 1980 has been undertaken by Amax Minerals and its successor Canamax Resources Inc., who have drilled eight holes in the area. These drill results, coupled with work previously carried out in the immediate area, indicate an average ore grade of 25.4% K_2O, and sufficient mineable reserves to support a world-class mine with an annual production of 2.0 million tonnes for more than 30 years. The potential to increase reserves is considered to be excellent.

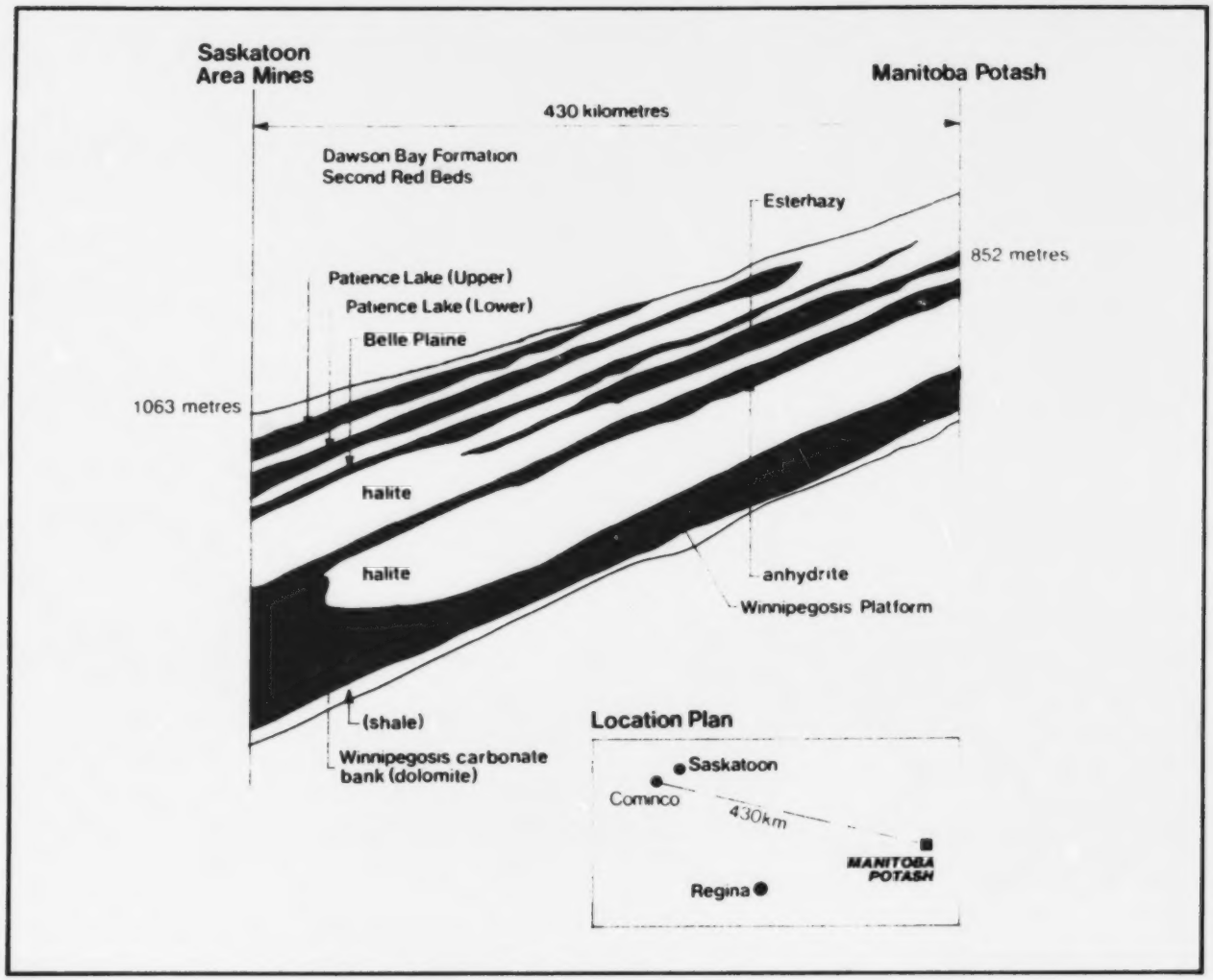

Fig 2. Prairie Evaporite Potash Members

THE CANAMAX — RUSSELL DEPOSIT

The Canamax-Russell deposit compares favorably in grade and in mining conditions with deposits supporting producing mines in southeast Saskatchewan.

The potash bed, which dips gently to the southwest, lies at depths ranging between 820 and 890 metres. This is 50 to 115 metres shallower than the depth necessary to reach the potash bed at nearby Saskatchewan mines.

The ore from the Canamax-Russell deposit is coarse grained and low in insoluble content. As a consequence, it possesses good liberation characteristics allowing for the utilization of the most efficient processing technology available. In addition, a well-defined marker bed permits good mining control.

In the pre-feasibility study, the Canamax reserve block is estimated by Kilborn Engineering to contain 172 million mineable tonnes of potash ore averaging 25.4% K_2O as sylvite. Indicated net recoverable shipping grade product (60.5% K_2O) within the reserve block is estimated by Kilborn Engineering to be 62 million tonnes. The full annual production of 2.0 million tonnes of muriate will require the mining and treatment of 5.54 million tonnes of ore per year.

The potash industry is well established in neighbouring Saskatchewan and has over 20 years of experience with the type of deposit found at Russell. Considerable industry-wide knowledge is available on the mining conditions which are likely to be encountered. The project, therefore, is considered to present minimal technical risks.

CANAMAX—RUSSELL DEPOSIT

Manitoba Potash Project
Pre-Feasibility Study Summary Data

ORE

Mineable Reserve	172,000,000 tonnes ore
Grade	25.4% K_2O as Sylvite
Mineralogy	40.0% Sylvite (KCl) 55.6% Halite (NaCl) 3.3% Carnallite ($LCl.MgCl_2.6H_2O$) 1.1% Water Insolubles
Mine Production & Mill Feed	5,540,000 tonnes per year
Concentration Ratio	2.77

PRODUCT

Mill Production	2,000,000 tonnes of product per year
Grade	60.5% K_2O
Mineralogy	95.7% Sylvite (KCl) 4.0% Halite (NaCl) 0.3% Water Insolubles

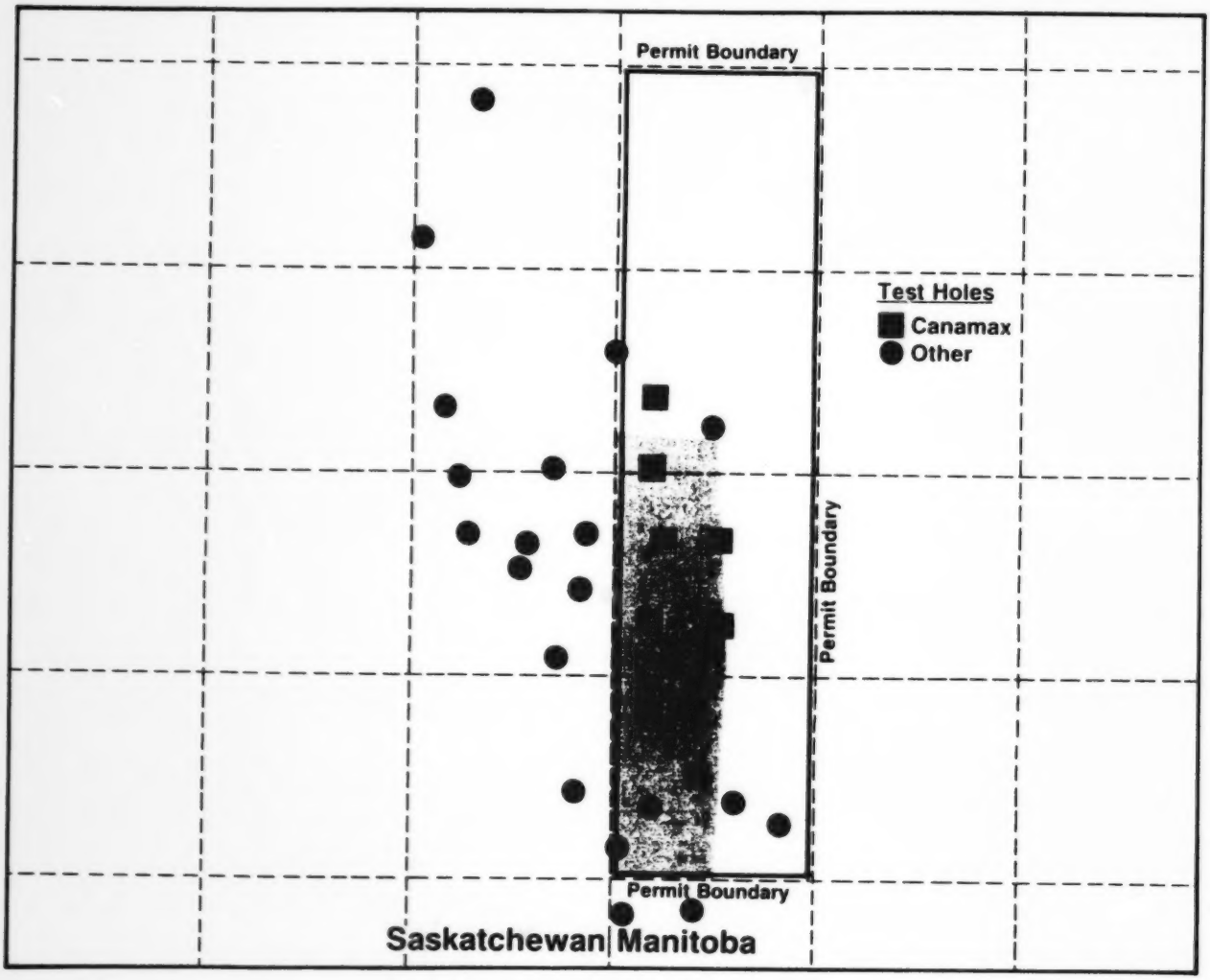

Fig. 3. Mining reserve block within permit area

PROJECT DESCRIPTION

The Manitoba Potash project is sited near the Manitoba-Saskatchewan border. The deposit is 350 kilometres west of Winnipeg and lies immediately west of the communities of Russell and Binscarth, just east of three world-class potash mines — PCS Rocanville, IMC K1 and K2. Following a production decision, the project will take about five years to complete, and during construction will create 1600 person years of direct employment. At peak construction as many as 900 people will be employed on-site. When fully operational, the project will employ about 350 people.

The mining plan developed by Kilborn Engineering employs room and pillar methods and technologies which have proven themselves in nearby Saskatchewan mines. The mine will be highly automated and centrally monitored.

Kilborn Engineering has designed a potash processing system which relies upon proven technology while incorporating recent innovations. The finished product — graded coarse, standard, granular and soluble — will be stored on-site or shipped directly to the consumer. On-site storage is designed to provide surge capacity that will allow compensation for demand fluctuations. Similarly, product mix flexibility will permit continued operation in the face of short-term shifts in the potash market. The Manitoba Potash Project will produce about 6,000 tonnes of product daily, and will have on-site storage capacity for 250,000 tonnes.

All required utilities, including electricity, natural gas, and water, are readily available. The area is easily accessible by rail, air and provincial highways.

The mainline of the Canadian National Railway runs some 20 to 26 kilometres to the southwest of the proposed mine site. The northern mainline of the Canadian Pacific Railway runs 2.9 kilometres to the north of this site. Each major railway has proposed an optimum potash haulage system to the West Coast which, combined with related ocean shipping routes to the Pacific Rim, should make the project's transport costs competitive with those of existing Saskatchewan producers.

MARKETING

While potash demand was low in the early 1980s, forecasts through to 1995 present a markedly improved situation. Although demand growth in industrialized countries will be moderate, the pattern established by India and China toward food self-sufficiency will be followed by other nations, with a corresponding increase in world demand for potash fertilizer.

Current studies foresee a narrowing of the gap between supply and demand by the early 1990s, and without increases in production capacity, scarcity will occur by the middle of the decade. These trends will lead to a firming of prices, suggesting that the early 1990s will be a very good time for Manitoba to enter the world potash market.

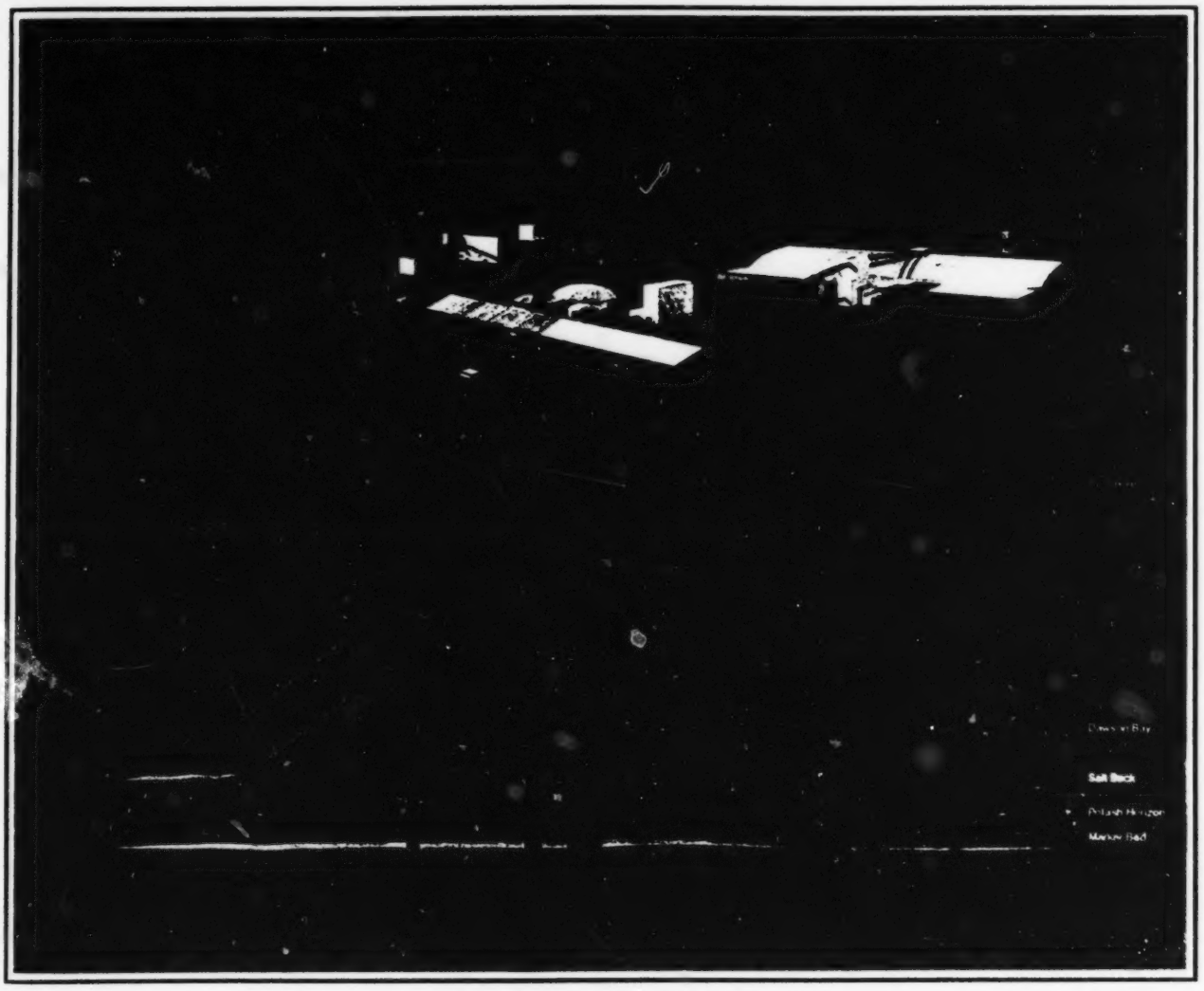

Fig. 4. The Manitoba Potash Project

ECONOMICS

Capital & Operating Costs

Kilborn Engineering, in the pre-feasibility study, estimates that the Manitoba Potash Project will incur a total capital cost (in 1st quarter 1985 Canadian dollars) of $467 million. This capital cost, equal to Canadian $235 per annual tonne of capacity, is one of the lowest per unit of capacity for new potash projects anywhere.

The capital cost estimate includes the cost of all facilities, including site preparation, shaft sinking and facilities, mine development, underground equipment and facilities, headframes, all on-site surface storage and processing facilities, tailings storage area and brine disposal, construction indirects and camp, engineering, procurement and construction management, owner's costs and contingency. Not included are capital costs associated with off-site transportation and distribution, pre-production construction interest, or working capital requirements.

Kilborn Engineering has estimated that annual operating costs will total $51 million or $25.50 per tonne of product, expressed in 1985 Canadian dollars. Due to the richness of the deposit and the scale of the project, these operating costs are among the lowest in the world. This estimate includes site labour, materials, energy, property taxes, miscellaneous expenses and a contingency allowance.

The operating cost does not include corporate overheads, costs of marketing or transportation, royalties, income taxes or amortization. The corporate overheads and marketing costs have been included in the economic evaluation as an allowance based upon experience in the industry, amounting to 5% of gross revenue. It is anticipated that royalties and resource taxes will be competitive with those in other jurisdictions.

Economic Evaluation

The economic evaluation undertaken by Kilborn Engineering in the pre-feasibility study, suggests that the Manitoba Potash Project will be attractive to investors, with an after-tax return well above the hurdle rate that is typical for projects of this kind.

The project's economic returns are sensitive to variations in product price, schedule, production volume, capital and operating costs and ore grade. None of the variations examined in the sensitivity analysis reduce the project's rate of return below the hurdle rate.

Returns to equity investors can be significantly improved through debt financing. A 50/50 debt/equity ratio approximately doubles the net present value of the investment.

Comparative Operating Costs

Direct operating costs of the Manitoba Potash Project are in the lower range of those experienced in southeast Saskatchewan, and well below the average for potash mines in both the Saskatoon area and New Brunswick. Since Canadian potash operating costs are among the lowest in the world, the Manitoba Potash Project will be at the bottom end of the world cost curve.

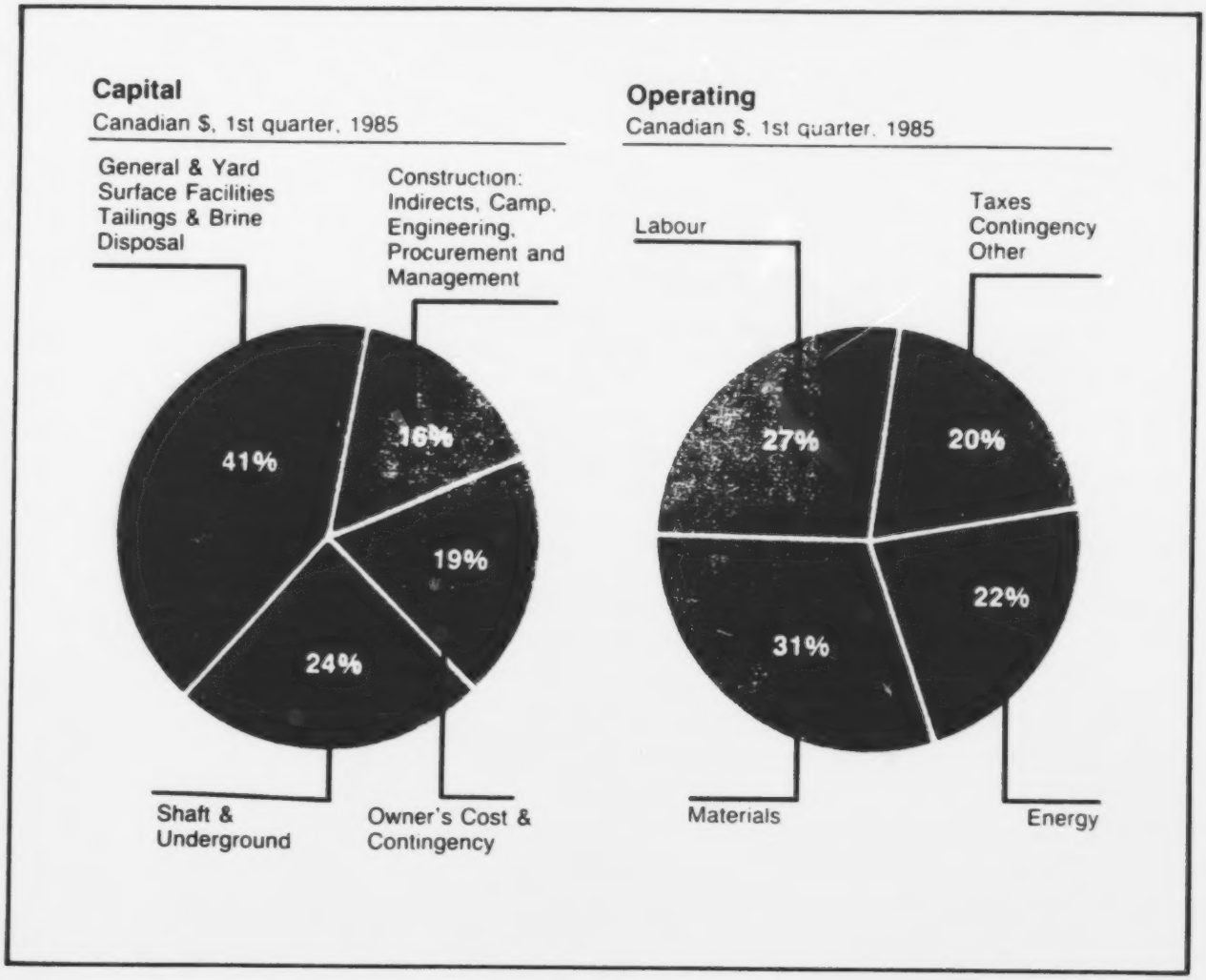

Fig. 5. Capital and Operating Costs

DEVELOPMENT SCHEDULE

The Manitoba Potash Project is underway, and will reach full production five years following a production decision. Manitoba and Canamax are in the process of assessing potential participants and are working toward the formation of a suitable consortium. A competitive resource tax system is being developed and further seismic, engineering design, environmental, marketing and transportation studies are being undertaken. Following completion of this work by 1987, a production decision will be made.

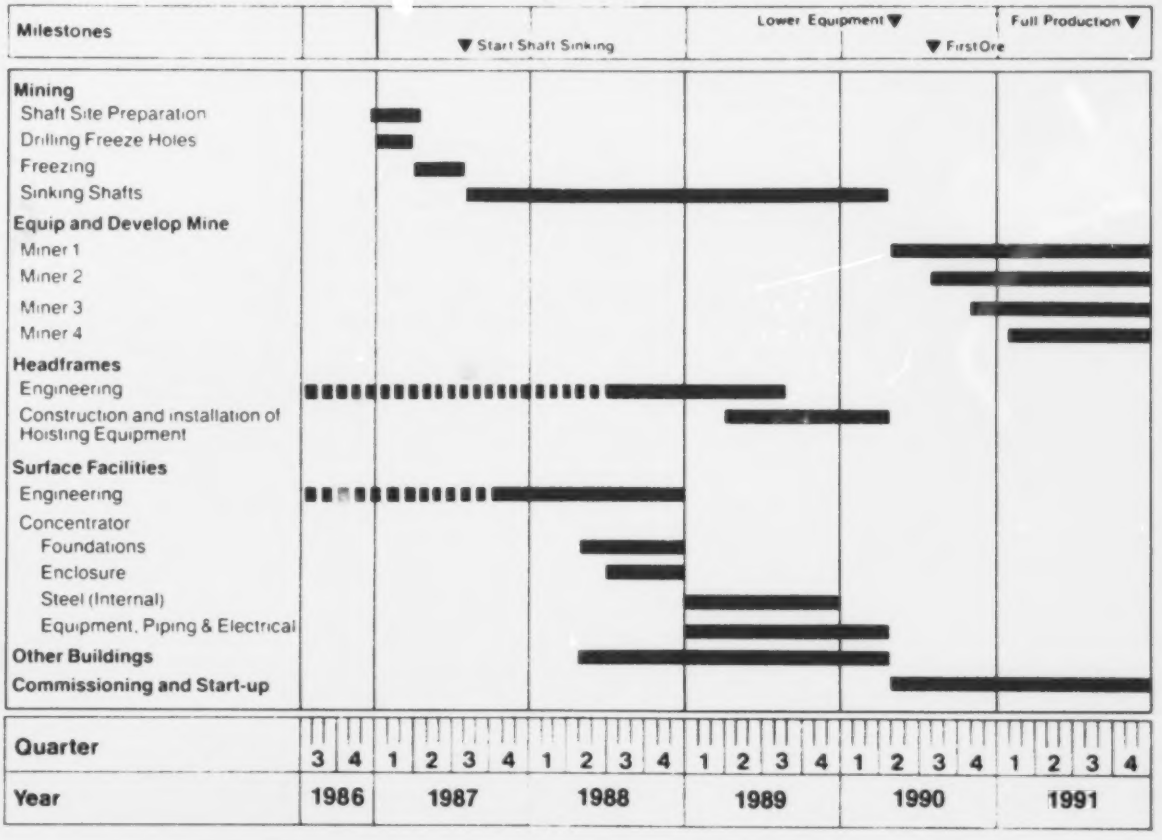

Fig. 6. Projected Development Schedule

INVESTMENT OPPORTUNITIES

The Government of Manitoba and Canamax Resources Inc. welcome the early participation of investors and consumers. The opportunity exists for involvement in all aspects of the design and construction of the mine and mill, and for the early development of cost-effective transportation modes, designed to meet the specific requirements of participating customers.

The concept for the development of this project is unique in many respects, and the timing of the project is most opportune. As a consumer, your early involvement will assist you in securing long-term access to an essential commodity for which there will soon be a growing demand worldwide. As an investor, you will enjoy the benefits that flow from helping develop a viable, profitable and rewarding enterprise.

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